



GREATER  
**KOKSTAD**  
MUNICIPALITY

PROVINCE OF KWAZULU-NATAL

Greater Kokstad Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2019

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## General Information

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<b>LEGAL FORM OF ENTITY</b>	Local Municipality																																								
<b>MEMBERS OF THE COUNCIL</b>	<table><tr><td>Cllr B M Mtolo</td><td><b>Mayor</b></td></tr><tr><td>Cllr Z A Mhlongo</td><td><b>Speaker</b></td></tr><tr><td>Cllr K J Walker</td><td><b>Deputy Mayor</b></td></tr><tr><td>Cllr M N Dumisa</td><td><b>Member of Executive Committee</b></td></tr><tr><td>Cllr H T Mngonyama</td><td>Member</td></tr><tr><td>Cllr N Nguza</td><td>Member</td></tr><tr><td>Cllr M Figlan</td><td>Member</td></tr><tr><td>Cllr N Mavuka</td><td>Member</td></tr><tr><td>Cllr N Mfukuli</td><td>Member</td></tr><tr><td>Cllr E Bhengu</td><td>Member</td></tr><tr><td>Cllr M N L Madikizela</td><td>Member</td></tr><tr><td>Cllr Z R Tshazi</td><td>Member</td></tr><tr><td>Cllr N Lusawana</td><td>Member</td></tr><tr><td>Cllr K Putuma</td><td>Member</td></tr><tr><td>Cllr M Mgevu</td><td>Member(Deceased)</td></tr><tr><td>Cllr B L Marncé</td><td>Member</td></tr><tr><td>Cllr M N Dlakavu</td><td>Member</td></tr><tr><td>Cllr N N Fortein</td><td>Member</td></tr><tr><td>Cllr Z Tshangase</td><td>Member</td></tr><tr><td>Cllr T O Madikizela</td><td>Member</td></tr></table>	Cllr B M Mtolo	<b>Mayor</b>	Cllr Z A Mhlongo	<b>Speaker</b>	Cllr K J Walker	<b>Deputy Mayor</b>	Cllr M N Dumisa	<b>Member of Executive Committee</b>	Cllr H T Mngonyama	Member	Cllr N Nguza	Member	Cllr M Figlan	Member	Cllr N Mavuka	Member	Cllr N Mfukuli	Member	Cllr E Bhengu	Member	Cllr M N L Madikizela	Member	Cllr Z R Tshazi	Member	Cllr N Lusawana	Member	Cllr K Putuma	Member	Cllr M Mgevu	Member(Deceased)	Cllr B L Marncé	Member	Cllr M N Dlakavu	Member	Cllr N N Fortein	Member	Cllr Z Tshangase	Member	Cllr T O Madikizela	Member
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Cllr T O Madikizela	Member																																								
<b>GRADING OF LOCAL AUTHORITY</b>	Grade 3																																								
<b>MUNICIPAL MANAGER</b>	Mr L H Mapholoba																																								
<b>CHIEF FINANCE OFFICER (CFO)</b>	Mr T L Mketsu																																								
<b>REGISTERED OFFICE</b>	75 Hope Street Kokstad 4700																																								
<b>POSTAL ADDRESS</b>	P O Box 08 Kokstad 4700																																								
<b>BANKERS</b>	First National Bank, a Division of FirstRand Bank Ltd																																								
<b>AUDITORS</b>	Auditor General South Africa (AGSA)																																								

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Index

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The reports and statements set out below comprise the annual financial statements presented to the council:

	<b>Page</b>
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Statement of Comparison of Budget and Actual Amounts	8 - 9
Accounting Policies	10 - 28
Notes to the Annual Financial Statements	29 - 66

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
IFRS	International Financial Reporting Standards

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 66, in terms of section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality.

I certify that the salaries, benefits and allowances as disclosed in note 30 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the constitution, read with the Remuneration of Public Officers Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the set standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 4 to 66, are prepared on the basis that the municipality is a going concern and has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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**Accounting Officer**  
**LH MAPHOLOBA**

**Friday, 30 August 2019**

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Position as at 30 June 2019

	Note(s)	2019 R	2018 R
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	4	1 754 973	1 501 209
VAT	5	-	1 123 381
Receivables from non-exchange transactions	6	42 616 464	23 897 119
Prepayments	7	539 875	1 372 584
Receivables from exchange transactions	8	29 763 005	24 055 447
Cash and cash equivalents	9	116 761 145	114 262 305
		<b>191 435 462</b>	<b>166 212 045</b>
<b>Non-Current Assets</b>			
Investment property	10	96 650 610	93 526 497
Property, plant and equipment	11	544 357 154	486 186 128
Intangible assets	12	1 716 706	2 063 224
Heritage assets	13	2 066 400	1 896 400
		<b>644 790 870</b>	<b>583 672 249</b>
<b>Total Assets</b>		<b>836 226 332</b>	<b>749 884 294</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Vat payable	5	1 008 812	-
Payables from exchange transactions	14	37 641 013	30 544 942
Consumer deposits	15	4 444 984	4 198 996
Employee benefit obligation	19	1 108 476	1 345 282
Unspent conditional grants and receipts	16	5 877 841	12 035 172
Provisions	17	1 956 143	2 514 652
Deferred income	18	3 536 291	5 279 478
Bank overdraft	9	689 884	-
		<b>56 263 444</b>	<b>55 918 522</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	19	20 157 058	13 670 724
<b>Total Liabilities</b>		<b>76 420 502</b>	<b>69 589 246</b>
<b>Net Assets</b>		<b>759 805 830</b>	<b>680 295 048</b>
Accumulated surplus		759 805 811	680 295 076

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Performance

	Note(s)	2019 R	2018 R
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	20	133 804 925	118 707 755
Rental of facilities and equipment	21	2 144 956	1 410 249
Licences and permits	22	3 173 751	3 216 351
Proceeds on disposal of assets		1 651 723	-
Other income	23	4 879 431	3 521 648
Interest earned - external investments	24	8 877 410	9 777 018
Fair value adjustments	10	3 124 113	1 200 241
<b>Total revenue from exchange transactions</b>		<b>157 656 309</b>	<b>137 833 262</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	25	129 808 505	94 601 966
Interest earned - outstanding receivables	25	4 453 581	4 042 254
Debtors impairment recovery		-	692 302
<b>Transfer revenue</b>			
Government grants and subsidies	26	124 620 926	98 616 459
Fines	27	1 378 782	1 868 627
Fines impairment recovery	6	353 488	1 636 104
Provision for performance recovery of bonuses	17	1 802 218	2 299 741
<b>Total revenue from non-exchange transactions</b>		<b>262 417 500</b>	<b>203 757 453</b>
<b>Total revenue</b>	28	<b>420 073 809</b>	<b>341 590 715</b>
<b>Expenditure</b>			
Employee costs	29	(116 742 681)	(100 468 254)
Remuneration of councillors	30	(7 201 499)	(6 969 793)
Depreciation and amortisation	31	(34 715 773)	(34 619 724)
Impairment loss	32	-	(320 463)
Finance costs	33	-	(22 822)
Debt written off	34	(2 299 738)	(5 671 925)
Bulk purchases	35	(86 852 689)	(84 005 005)
Contracted services	36	(29 390 426)	(24 811 567)
Loss on disposal of assets and liabilities		(23 012)	(5 532 283)
Loss on Actuarial valuation		(5 627 683)	(73 835)
General Expenses	37	(57 709 572)	(44 448 662)
<b>Total expenditure</b>		<b>(340 563 073)</b>	<b>(306 944 333)</b>
<b>Surplus for the year</b>		<b>79 510 736</b>	<b>34 646 382</b>

## Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

### Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
<b>Balance at 01 July 2017</b>	<b>645 648 694</b>	<b>645 648 694</b>
Changes in net assets		
Surplus for the year	34 646 382	34 646 382
Total changes	34 646 382	34 646 382
<b>Balance at 01 July 2018</b>	<b>680 295 075</b>	<b>680 295 075</b>
Changes in net assets		
Surplus for the period	79 510 736	79 510 736
Total changes	79 510 736	79 510 736
<b>Balance at 30 June 2019</b>	<b>759 805 811</b>	<b>759 805 811</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Cash Flow Statement

	Note(s)	2019 R	2018 R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Taxes		95 215 376	104 417 006
Sale of goods and services		136 251 370	120 954 519
Grants		124 620 926	96 653 846
Interest income		8 877 410	9 777 018
Other receipts		1 378 782	1 868 627
		366 343 864	333 671 016
<b>Payments</b>			
Employee costs		(119 392 633)	(102 392 386)
Suppliers		(153 581 636)	(165 807 187)
Finance costs		-	(22 822)
		(272 974 269)	(268 222 395)
<b>Net cash flows from operating activities</b>	38	<b>93 369 595</b>	<b>65 448 621</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	11	(92 563 292)	(72 594 155)
Proceeds from sale of property, plant and equipment	11	1 044 433	-
Purchase of other intangible assets	12	-	(2 001 753)
Purchases of heritage assets	13	(170 000)	(784 000)
<b>Net cash flows from investing activities</b>		<b>(91 688 859)</b>	<b>(75 379 908)</b>
<b>Cash flows from financing activities</b>			
Finance lease movement		-	(1 090 983)
Finance lease receipts		128 221	-
<b>Net cash flows from financing activities</b>		<b>128 221</b>	<b>(1 090 983)</b>
<b>Net increase in cash and cash equivalents</b>		<b>1 808 957</b>	<b>(11 022 270)</b>
Cash and cash equivalents at the beginning of the year		114 262 305	125 284 575
<b>Cash and cash equivalents at the end of the year</b>	9	<b>116 071 262</b>	<b>114 262 305</b>



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R	R	

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	151 527 000	(70 000)	<b>151 457 000</b>	133 804 925	<b>(17 652 075)</b>	50
Rental of facilities and equipment	1 263 000	-	<b>1 263 000</b>	2 144 956	<b>881 956</b>	
Licences and permits	4 161 000	3 000	<b>4 164 000</b>	3 173 751	<b>(990 249)</b>	50
Other income 1	-	-	-	1 651 723	<b>1 651 723</b>	
Fair value adjustments	-	-	-	3 124 113	<b>3 124 113</b>	50
Other income	4 885 000	(285 000)	<b>4 600 000</b>	4 879 431	<b>279 431</b>	50
Investment revenue	8 528 000	-	<b>8 528 000</b>	8 877 410	<b>349 410</b>	50
<b>Total revenue from exchange transactions</b>	<b>170 364 000</b>	<b>(352 000)</b>	<b>170 012 000</b>	<b>157 656 309</b>	<b>(12 355 691)</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	140 967 000	(1 673 000)	<b>139 294 000</b>	129 808 505	<b>(9 485 495)</b>	50
Interest received -outstanding debtors	4 572 000	-	<b>4 572 000</b>	4 453 581	<b>(118 419)</b>	

##### Transfer revenue

Transfer recognised - Operational & Capital	92 279 000	28 632 000	<b>120 911 000</b>	124 620 926	<b>3 709 926</b>	50
Fines, Penalties and Forfeits	1 751 000	3 000	<b>1 754 000</b>	1 378 782	<b>(375 218)</b>	50
Fines impairment bad debts recovery	-	-	-	353 488	<b>353 488</b>	50
Provision for performance bonus recovery	-	-	-	1 802 218	<b>1 802 218</b>	50

<b>Total revenue from non-exchange transactions</b>	<b>239 569 000</b>	<b>26 962 000</b>	<b>266 531 000</b>	<b>262 417 500</b>	<b>(4 113 500)</b>	
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<b>Total revenue</b>	<b>409 933 000</b>	<b>26 610 000</b>	<b>436 543 000</b>	<b>420 073 809</b>	<b>(16 469 191)</b>	
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#### Expenditure

Employee costs	(134 444 000)	311 000	<b>(134 133 000)</b>	(116 742 681)	<b>17 390 319</b>	50
Remuneration of councillors	(7 530 000)	(200 000)	<b>(7 730 000)</b>	(7 201 499)	<b>528 501</b>	50
Depreciation and asset impairment	(54 967 000)	10 000 000	<b>(44 967 000)</b>	(34 715 773)	<b>10 251 227</b>	50
Finance charges	(20 000)	20 000	-	-	-	
Debt Impairment	(9 057 000)	-	<b>(9 057 000)</b>	(2 299 738)	<b>6 757 262</b>	50
Material & Bulk purchases	(101 771 000)	-	<b>(101 771 000)</b>	(86 852 689)	<b>14 918 311</b>	50
Contracted Services	(44 535 000)	(6 583 000)	<b>(51 118 000)</b>	(29 390 426)	<b>21 727 574</b>	50
General expenses	(47 762 000)	2 913 000	<b>(44 849 000)</b>	(57 709 572)	<b>(12 860 572)</b>	
Other materials	(5 257 000)	(953 000)	<b>(6 210 000)</b>	-	<b>6 210 000</b>	

<b>Total expenditure</b>	<b>(405 343 000)</b>	<b>5 508 000</b>	<b>(399 835 000)</b>	<b>(334 912 378)</b>	<b>64 922 622</b>	
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<b>Surplus/(Deficit)</b>	<b>4 590 000</b>	<b>32 118 000</b>	<b>36 708 000</b>	<b>85 161 431</b>	<b>48 453 431</b>	
Loss on disposal of assets and liabilities	-	-	-	(23 012)	<b>(23 012)</b>	

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R		
Transfers and subsidies	-	-	-	(5 627 683)	<b>(5 627 683)</b>	
	-	-	-	<b>(5 650 695)</b>	<b>(5 650 695)</b>	
<b>Surplus</b>	<b>4 590 000</b>	<b>32 118 000</b>	<b>36 708 000</b>	<b>79 510 736</b>	<b>42 802 736</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>4 590 000</b>	<b>32 118 000</b>	<b>36 708 000</b>	<b>79 510 736</b>	<b>42 802 736</b>	

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Critical judgements, estimates and assumptions

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.3 Critical judgements, estimates and assumptions (continued)

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

#### Useful life assessment of PPE and intangible assets

The municipality's management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and other assets. This estimate involves a matter of industry norms and on the pattern in which an asset's future economic benefit or service potential is expected to be consumed by the municipality. Management will increase the depreciation and amortisation charges where useful lives are less than previously estimated useful lives and decrease the depreciation and amortisation charges where useful lives are more than previously estimated useful lives.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction cost once it meets the definition of investment property. Investment Property is initially recognised when future economic benefits or service potential are probable and the cost or fair value can be determined reliably.

The cost of self-constructed investment property is the cost at date of completion.

#### Subsequent measurement - Fair value model

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

#### Derecognition

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.4 Investment property (continued)

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the statement of financial performance in the period of retirement or disposal.

### 1.5 Property, plant and equipment

#### Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

#### Initial measurement

Items of property plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site in which it is located.

Where an asset is acquired is acquired by the municipality for no or nominal consideration (i.e a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

#### Subsequent measurement - Cost Model

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

#### Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have useful lives that are depreciated separately.

Land is not depreciated as it is deemed to have indefinite useful life.

Capital work in progress is not depreciable until it is transferred to the applicable property, plant and equipment category once it is ready and available for its intended use.

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimates in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset maybe impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount) and an impairment amount is charged to the Statement of Financial Performance.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	80 years
Motor vehicles	Straight line	5-7 years
Infrastructure	Straight line	
• Roads and pavings		20 years
• Bridges		30 years
• Storm water		15 years
• Gravel		20 years
• Substation and Transformers		40 years
• Poles, Cables and Lights		15-25 years
• Robots		10 years
Community	Straight line	
• Buildings		80 years
• Recreational facilities		5 years
• Security system		5 years
• Dams		1-15 years
• Libraries		15-20 years
• Parks and Gardens		15 years
• Cemeteries		15-20 years
• Community centres		5-20 years
Other property, plant and equipment	Straight line	
• Emergency equipment		5 years
• Landfill sites		15 years
• Office equipment		5 years
• Furniture and fittings		5 years
• Bins and containers		5 years
• Computers equipment		5-8 years

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.6 Intangible assets

#### Initial Recognition

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. A heritage asset shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and
- (b) the cost or fair value of the asset can be measured reliably.

#### Initial Measurement

An asset that has met the recognition requirement criteria for heritage assets shall be measured at its cost if such an asset has been acquired through an exchange transaction.

Where a heritage asset has been acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

#### Subsequent Measurement

Heritage assets are not depreciated based on their nature however the municipality assesses at each reporting date whether there is a need for impairment.

The class of heritage assets are carried at its cost less any accumulated impairment losses.

#### Derecognition

The carrying amount of a heritage asset is derecognised:

- (a) on disposal, or
- (b) when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

### 1.7 Intangible Assets

#### Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised.

Research/feasibility expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential;
- the municipality has the ability to measure reliably the expenditure during development."

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.7 Intangible Assets (continued)

#### Initial measurement

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up

#### Subsequent measurement

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Residual value of intangible assets is estimated to be zero. Fully depreciated assets which are still in use are not written off.

#### Amortisation

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	3 - 8 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality test intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

#### Derecognition

Intangible assets are derecognised when the assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Prepayments	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Consumer deposits	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Deferred Income	Financial liability measured at amortised cost

The entity has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

#### Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### 1.9 Trade and other receivables

#### Consumer Debtors per impairment category

##### Category A

- Regular payers and Government Accounts - 0%
- Consumers with accounts not older than 60 days, and;
- Government.

##### Category B

- Regular payers (50% less than 180 days and 100% on rest); and
- Amounts owing but do pay.

##### Category C

- Doubtful 100% all amounts;
- Consumers with no payment history;
- Owing longer than 60 days with no payments for 6 months; and
- Inactive accounts.

The municipality individually assesses the debtors.

#### Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.10 Leases

#### The Municipality as lessee

##### Recognition

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payment due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payment, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

##### Measurement

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies application to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayments using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies related to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful lives or the lease term.

##### Derecognition

The finance lease liabilities are derecognised when the entity's obligation to settle the liability is extinguished. The assets capitalised under the finance lease are derecognised when the entity no longer expects any economic benefits or service potential to flow from the asset.

The operating lease liability is derecognised when the entity's obligation to settle the liability is extinguished. The operating lease asset is derecognised when the entity no longer anticipates economic benefits to flow from the asset.

##### Operating leases - lessee

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.10 Leases (continued)

#### The Municipality as Lessor

For those leases that meet the definition of a finance lease, where the entity is the lessor, the entity derecognises the asset subject to the lease at the inception of the lease. Along with the derecognition of the asset the entity recognises a finance lease receivable. Finance lease income is allocated to between the finance lease receivable and finance income using the effective interest rate method and the resulting finance income is recognised in the Statement of Financial Performance as it accrues.

For those leases classified as operating leases the asset subject to the lease is not derecognised and no lease receivable is recognised at the inception of the lease. Lease payments received under an operating lease are recognised as income, in the Statement of Financial Performance, in the period that the income accrues.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; namely, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

#### Measurement

Finance lease receivables are recognised at an amount equal to the entity's net investment in the lease. This net investment in the lease is calculated as the sum of the minimum future lease payments and unguaranteed residual value discounted over the lease term at the rate implicit in the lease.

Rental Income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined lease payments and the contractual lease payments are recognised as either an operating lease asset or operating lease liability. An operating lease liability is raised to the extent that lease payments are received in advance (i.e. the straight-line lease payments are more than the contractual lease payments). The operating lease asset and / or operating lease liability are measured as the undiscounted difference between the straight-line lease receipts and the contractual lease receipts.

#### Derecognition

Finance lease receivables are derecognised when the entity's right to the underlying cash flows expire or when the entity no longer expects economic benefits to flow from the finance lease receivable.

Operating lease liabilities are derecognised when the entity's obligation to provide economic benefits or service potential under the lease agreement expires. Operating lease assets are derecognised when the entity's right to the underlying cash flows expire or the entity no longer expects economic benefits to flow from the operating lease asset.

### 1.11 Inventories

#### Initial recognition and measurement

Inventories comprise current assets not held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

### 1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follows: as the municipality is a district municipality, it does not hold assets which are specifically used to generate revenue (e.g. infrastructure relating to utilities), other than the farm used to hold biological assets. Other revenue generated by the municipality is in exchange for services provided, for which the related assets (furniture, office equipment, etc.) are interchangeable with the assets used for non-cash generating activities

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

### 1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.13 Impairment of non-cash-generating assets (continued)

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow: as the municipality is a district municipality, it does not hold assets which are specifically used to generate revenue (e.g. infrastructure relating to utilities), other than the farm used to hold biological assets. Revenue generated by the municipality is in exchange for services provided, for which the related assets (furniture, office equipment, etc.) are interchangeable with the assets used for non-cash generating activities; all such interchangeable assets are deemed to be non-cash generating assets.

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.14 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

#### Medical Aid

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actual valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the value projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.15 Provisions

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

### 1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.16 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### Deferred Income

### 1.17 Revenue from non-exchange transactions

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions (continued)

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Deferred Income

Amounts received before the related work is performed are included in the statement of financial position as a liability, Deferred Income

### 1.18 Value Added Taxation

The Municipality accounts for Value Added Tax on the accrual basis. .

The municipality is registered with the South African Revenue Services (SARS) for VAT on the invoice basis, in accordance with Section 15(1) of the VAT Act No.89 of 1991.

### 1.19 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

### 1.20 Comparative figures

No comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.21 Unauthorised expenditure

Unauthorised expenditure is an expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.22 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.23 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.24 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

### 1.25 Budget information

Municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.25 Budget information (continued)

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.26 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

### 1.27 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
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### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

##### **GRAP 104 (amended): Financial Instruments**

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the amendment is not yet set by the Minister of Finance.

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

##### **Guideline: Guideline on Accounting for Landfill Sites**

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology & References to pronouncements used in the Guideline.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

##### **GRAP 108: Statutory Receivables**

## Notes to the Annual Financial Statements

### 2. New standards and interpretations (continued)

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### 3. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 4. Inventories

Stores and materials	1 754 973	1 501 209
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#### Inventory pledged as security

No Inventory pledged as security

### 5. VAT

Vat recievable	-	1 123 381
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Vat payable	880 591	-
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### 6. Receivables from non-exchange transactions

Fines	11 874 014	10 249 521
SETA	1 434 496	1 434 496
Municipal Infrastructure Grant	11 067 535	1 525 701
Sundry debtors	5 211 192	3 727 403
Consumer debtors - Rates	13 029 227	6 959 998
	<b>42 616 464</b>	<b>23 897 119</b>

#### Fines Reconciliation

Opening Balance fines	17 100 975	16 057 430
Opening Impairment of fines	(6 851 454)	(8 487 558)
Current year fines	1 271 005	1 043 545
Current year recovery on impairment fines	353 488	1 636 104
	<b>11 874 014</b>	<b>10 249 521</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>6. Receivables from non-exchange transactions (continued)</b>		
<b>Receivables from non-exchange transactions-Rates</b>		
<b>Gross</b>		
Rates	29 550 769	18 719 657
Impairment	(16 521 542)	(11 759 659)
	<b>13 029 227</b>	<b>6 959 998</b>
<b>7. Prepayments</b>		
The year of renewal over lapses to the Municipalities new financial year. The municipality pre-paid for the following licenses :		
Sage licence	73 760	68 933
Firewall licence	63 728	64 025
Customer care licence	-	63 000
Anti-virus	186 900	-
Insurance	-	931 414
Microsoft licences	215 487	245 212
	<b>539 875</b>	<b>1 372 584</b>
<b>8. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	15 165 587	14 506 851
Refuse	21 755 146	18 092 797
Fire and other	7 396 688	1 815 300
	<b>44 317 421</b>	<b>34 414 948</b>
<b>Less: Allowance for impairment</b>		
Electricity	(1 652 869)	(1 176 475)
Refuse	(11 885 159)	(8 317 232)
Fire and other	(1 016 387)	(865 797)
	<b>(14 554 415)</b>	<b>(10 359 504)</b>
<b>Net balance</b>		
Electricity	13 512 717	13 330 379
Refuse	9 869 987	9 775 565
Fire and other	6 380 301	949 503
	<b>29 763 005</b>	<b>24 055 447</b>
<b>Electricity</b>		
Current (0 -30 days)	8 456 811	7 779 900
31 - 60 days	3 047 249	1 662 593
61 - 90 days	559 975	389 108
91 - 120 days	258 727	291 145
121 - 365 days	284 708	994 847
> 365 days	2 558 117	3 389 258
	<b>15 165 587</b>	<b>14 506 851</b>



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>8. Receivables from exchange transactions (continued)</b>		
<b>Refuse</b>		
Current (0 -30 days)	2 126 550	2 163 073
31 - 60 days	1 636 178	1 407 129
61 - 90 days	1 344 201	1 064 792
91 - 120 days	1 230 484	887 249
121 - 365 days	1 169 671	3 873 947
> 365 days	14 248 062	8 696 606
	<b>21 755 146</b>	<b>18 092 796</b>
<b>Fire Levy and other</b>		
Current (0 -30 days)	185 945	110 627
31 - 60 days	200 453	77 445
61 - 90 days	141 951	63 377
91 - 120 days	132 168	51 957
121 - 365 days	130 263	249 486
> 365 days	6 605 908	1 262 408
	<b>7 396 688</b>	<b>1 815 300</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>8. Receivables from exchange transactions (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	810 417	3 596 285
31 - 60 days	(1 150 783)	2 573 581
61 - 90 days	378 833	1 132 457
91 - 120 days	607 908	862 962
121 - 365 days	4 570 605	1 143 153
> 365 days	12 949 389	13 100 501
	<b>18 166 369</b>	<b>22 408 939</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	9 798 755	4 471 739
31 - 60 days	3 966 215	38 883
61 - 90 days	1 120 417	383 139
91 - 120 days	683 646	367 114
121 - 365 days	967 384	360 307
> 365 days	1 683 359	719 699
	<b>18 219 776</b>	<b>6 340 881</b>
<b>National and provincial government</b>		
Current (0 -30 days)	575 690	1 985 576
31 - 60 days	660 652	107 258
61 - 90 days	197 898	1 681
91 - 120 days	142 045	275
121 - 365 days	971 135	3 614 820
> 365 days	1 231 395	(471 928)
	<b>3 778 815</b>	<b>5 237 682</b>
<b>Total</b>		
Current (0 -30 days)	11 184 862	10 053 600
31 - 60 days	3 476 084	3 069 722
61 - 90 days	1 697 148	1 517 277
91 - 120 days	1 433 599	1 230 351
121 - 365 days	6 509 125	5 118 280
> 365 days	15 864 143	8 563 809
	40 164 961	29 553 039
Less: Allowance for impairment	(14 554 416)	(10 359 504)
<b>Add debtors with credit balances</b>	<b>4 152 460</b>	<b>4 861 909</b>
	<b>29 763 005</b>	<b>24 055 444</b>
<b>Less: Allowance for impairment</b>		
Current (0 -30 days)	(3 880 327)	(2 761 929)
31 - 60 days	(1 855 806)	(1 320 921)
61 - 90 days	(4 049 036)	(2 882 012)
91 - 120 days	(1 096 614)	(780 545)
121 - 365 days	(3 672 633)	(2 614 097)
	<b>(14 554 416)</b>	<b>(10 359 504)</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>8. Receivables from exchange transactions (continued)</b>		
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(10 359 504)	(10 683 743)
Contributions to allowance	(4 194 912)	-
Debt impairment written off against allowance	-	324 239
	<b>(14 554 416)</b>	<b>(10 359 504)</b>

### Fair value of receivables from exchange transactions

[The fair value equates to carrying value due to the short term nature]

### Consumer debtors past due but not impaired

The ageing of amounts past due but not impaired is as follows:

1 month past due	2 150 550	1 985 576
2 months past due	2 568	167 258
3 months past due	89 575	1 080 006

### 9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	12 333	12 333
Bank balances	-	6 157 561
Short-term deposits	116 748 812	108 092 411
	<b>116 761 145</b>	<b>114 262 305</b>
Current assets	116 761 145	114 262 305
Current liabilities	(689 884)	-
	<b>116 071 261</b>	<b>114 262 305</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019		2018	
	R		R	
<b>9. Cash and cash equivalents (continued)</b>				
<b>The municipality had the following bank accounts</b>				
Account number / description	Bank statement balances		Cash book balances	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
FNB - 620 2002 4258	4 327 306	1 769 851	(689 884)	6 157 561
FNB 620 4994 7825	44 621 966	27 207 835	44 621 696	27 207 835
FNB 620 9521 8947	1 000	1 000	1 000	1 000
FNB 620 610 2682	23 835	24 472	23 835	24 482
FNB 620 8937 2868	1 000	1 000	1 000	1 000
FNB 621 8992 7663	218 745	2	218 745	2
FNB 621 9170 1476	7 186	7 274	7 186	7 274
FNB 621 0368 9230	1 020 812	1 093 294	1 020 812	1 093 294
FNB 621 9024 8221	2 687 152	2 431 270	2 687 152	2 431 270
STD BANK 308 644 085	1 826 802	9 338 502	1 826 802	5 233 651
NED BANK 0371 6501 3687	81 129	76 558	81 129	76 948
FNB 623 0064 1611	2 235	2 221	2 235	2 221
NED 716 501 3660	1 000	1 819	1 000	1 819
NED 0371 6501 4276	107 921	101 217	107 921	101 741
ABSA 207 483 6976	13 920 797	18 886 741	13 920 797	19 009 217
STD NEW RESERVE	6 442 661	18 353 682	6 442 661	19 314 958
NEDBANK RESERVE ACCOUNT	13 914 776	18 497 785	13 914 776	19 121 958
DOE 63875 1558 80001	4 616 916	3 946 056	4 616 916	3 946 056
ITHALA BANK	-	10 517 685	-	10 517 685
NEW NEDBANK RESERVE	6 463 619	-	6 463 619	-
STANDARD BANK RESERVE ACCOUNT	14 166 285	-	14 166 286	-
NEW STD BANK RESERVE	6 623 244	-	6 623 244	-
<b>Total</b>	<b>121 076 387</b>	<b>112 258 264</b>	<b>116 058 928</b>	<b>114 249 972</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
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### 10. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land & Buildings	96 650 610	-	96 650 610	93 526 497	-	93 526 497

#### Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Land & Buildings	93 526 497	3 124 113	96 650 610

#### Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Land & Buildings	92 326 256	1 200 241	93 526 497

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### Details of valuation

The effective date of the revaluations was 1 July 2017. Revaluations were performed by an independent valuer, Mr Boateng [SACPVP, IAAO & GIS], of HCB Property valuations. Mr Boateng is not connected to the entity and has recent experience in location and category of the investment property being valued. The valuation was based on open market value for existing use.

For investment property, where there was a lack of comparable market data, the valuation was based on discounted cash flows. The following assumptions were used :

Rental revenue and interest rate increases and prevailing interest rates

These assumptions are based on current market conditions.

The last valuation came into effect on 1 July 2017. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations. Valuations are performed every 5 years.

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	2 003 928	1 130 487
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# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Restated

### 11. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	124 893 488	(90 583 677)	34 309 811	124 893 488	(89 292 418)	35 601 070
Motor vehicles	17 230 224	(8 919 745)	8 310 479	11 721 357	(8 289 448)	3 431 909
Infrastructure	635 065 850	(334 870 475)	300 195 375	608 963 994	(310 222 069)	298 741 925
Community	191 092 069	(101 168 345)	89 923 724	191 092 069	(97 928 427)	93 163 642
Other property, plant and equipment	44 529 816	(28 126 688)	16 403 128	39 891 619	(25 773 640)	14 117 979
Capital work in progress infrastructure	26 627 259	-	26 627 259	33 036 867	-	33 036 867
Capital work in progress community	68 587 378	-	68 587 378	8 092 736	-	8 092 736
<b>Total</b>	<b>1 108 026 084</b>	<b>(563 668 930)</b>	<b>544 357 154</b>	<b>1 017 692 130</b>	<b>(531 506 002)</b>	<b>486 186 128</b>

### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Other changes, movements reservall	Depreciation	Total
Land and Buildings	35 601 070	-	-	-	-	(1 291 259)	34 309 811
Motor vehicles	3 431 909	6 530 292	(1 021 425)	-	1 021 424	(1 651 721)	8 310 479
Infrastructure	298 741 925	-	-	26 101 856	-	(24 648 406)	300 195 375
Community	93 163 642	-	-	-	-	(3 239 918)	89 923 724
Other property, plant and equipment	14 117 979	5 846 110	(23 010)	-	-	(3 537 951)	16 403 128
Capital work in progress infrastructure	33 036 867	19 692 248	-	(26 101 856)	-	-	26 627 259
Capital work in progress community	8 092 736	60 494 642	-	-	-	-	68 587 378
	<b>486 186 128</b>	<b>92 563 292</b>	<b>(1 044 435)</b>	<b>-</b>	<b>1 021 424</b>	<b>(34 369 255)</b>	<b>544 357 154</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Restated

### 11. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land and Buildings	36 892 518	-	-	-	(1 291 448)	-	35 601 070
Motor vehicles	2 939 211	1 683 077	-	-	(916 491)	(273 888)	3 431 909
Infrastructure	290 129 245	-	(5 532 283)	39 968 917	(25 823 954)	-	298 741 925
Community	89 732 930	-	-	7 023 458	(3 592 746)	-	93 163 642
Other property, plant and equipment	3 640 067	13 297 844	-	-	(2 773 357)	(46 575)	14 117 979
Capital work in progress infrastructure	16 505 161	50 002 129	-	(33 470 423)	-	-	33 036 867
Capital work in progress community	14 003 582	7 611 105	-	(13 521 951)	-	-	8 092 736
	<b>453 842 714</b>	<b>72 594 155</b>	<b>(5 532 283)</b>	<b>1</b>	<b>(34 397 996)</b>	<b>(320 463)</b>	<b>486 186 128</b>

#### Pledged as security

Carrying value of assets pledged as security:

#### Expenditure incurred to repair and maintain property, plant and equipment

#### Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Employee related costs	-	1 692 068
Contracted services	6 808 359	3 172 696
General expenses	9 386 648	8 604 114
	<b>16 195 007</b>	<b>13 468 878</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
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### 12. Intangible assets

	2019			2018		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	4 182 309	(2 465 603)	1 716 706	4 182 309	(2 119 085)	2 063 224

#### Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	2 063 224	(346 518)	1 716 706

#### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	278 523	2 001 753	(217 052)	2 063 224

#### Pledged as security

None of intangible assets pledged as security.

### 13. Heritage assets

	2019			2018		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Statue	954 000	-	954 000	-	-	-
Work in progress	-	-	-	784 000	-	784 000
Museum	1 112 400	-	1 112 400	1 112 400	-	1 112 400
<b>Total</b>	<b>2 066 400</b>	<b>-</b>	<b>2 066 400</b>	<b>1 896 400</b>	<b>-</b>	<b>1 896 400</b>

#### Reconciliation of heritage assets 2019

	Opening balance	Additions	Transfers	Total
Statue	-	-	954 000	954 000
Work in progress	784 000	170 000	(954 000)	-
Museum	1 112 400	-	-	1 112 400
	<b>1 896 400</b>	<b>170 000</b>	<b>-</b>	<b>2 066 400</b>



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
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### 13. Heritage assets (continued)

#### Reconciliation of heritage assets 2018

	Opening balance	Additions	Total
Work in progress	-	784 000	784 000
Museum	1 112 400	-	1 112 400
	<b>1 112 400</b>	<b>784 000</b>	<b>1 896 400</b>

#### Pledged as security

No heritage were pledged as security

### 14. Payables from exchange transactions

Trade payables	1 003 785	2 803 385
Unallocated deposits	14 454 811	10 923 563
Accrued leave pay	6 996 164	6 266 433
Other payables	929 873	830 754
Debtors with credit balances non- exchange and exchange services	4 669 939	4 861 909
Retentions	3 866 101	2 395 929
Creditor accruals	5 720 340	2 462 969
	<b>37 641 013</b>	<b>30 544 942</b>

Payables are recognised net of any discounts.

### 15. Consumer deposits

Electricity	4 444 984	4 198 996
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### 16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Integrated National Electrification Programme	3 457 964	255 349
Furniture world	226 413	226 413
Horseshoe Township	1 528 247	1 476 418
IDP Community participation	85 672	85 672
Industrial Park	177 382	177 382
Peoples Housing Project 12 and 13	28 294	28 143
Shayamoya Eco- Complex	31 743	31 743
Small Town Rehabilitation	95 508	323 442
Cultural Village	55 541	5 000 000
Housing account	128 918	-
Emergency Equipment Grant	-	4 430 610
DSR	20 806	-
Massification	41 353	-
	<b>5 877 841</b>	<b>12 035 172</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
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### 17. Provisions

#### Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for performance bonus	2 514 652	1 956 143	(712 433)	(1 802 219)	1 956 143

#### Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for performance bonus	2 775 582	2 514 652	(475 841)	(2 299 741)	2 514 652

Performance bonuses are paid one year in arrear as the assessment of eligible employees had not taken place at the reporting date.

The balance of the performance bonus provisions relate to amounts not yet paid and eligible employees awaiting assessment for 2018/2019 financial year.

### 18. Deferred Income

Electricity units purchases unused	1 107 161	1 691 873
Deffered revenue	-	1 935 882
Sale of land	2 429 130	1 651 723
	<b>3 536 291</b>	<b>5 279 478</b>

Deferred Income relates to unused electricity credits .

Income was received for the sale of land which the risks and rewards are still with the municipality. This refers to:

-Erf 2291  
-Erf 2293  
-Erf 383  
-Erf 4684  
-Erf 8275

### 19. Retirement benefits and long term service awards

#### Defined benefit plan

The plan is a post employment medical benefit plan.

The amounts recognised in the statement of financial position are as follows:

Non-current liabilities	(20 157 058)	(13 670 724)
Current liabilities	(1 108 476)	(1 345 282)
	<b>(21 265 534)</b>	<b>(15 016 006)</b>

The fair value of plan assets includes:

#### Post employment health care benefits

Opening balance	(10 995 364)	(9 982 655)
Net actuarial gains pr (losses) recognised	(4 235 784)	(429 360)
Current service costs	(180 074)	(205 057)
Interest cost	(1 001 134)	(894 879)
Contributions by employer	47 609	516 587
	<b>(16 364 747)</b>	<b>(10 995 364)</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>19. Retirement benefits and long term service awards (continued)</b>		
<b>Long service awards</b>		
Opening balance	(4 020 642)	(3 737 786)
Net actuarial gains or (losses) recognised	(880 995)	(68 010)
Current service costs	(370 161)	(341 241)
Interest cost	(314 305)	(297 140)
Contributions by employer	685 915	423 535
	<b>(4 900 188)</b>	<b>(4 020 642)</b>
<b>Total retirement benefits and long term service awards</b>		
Post employment health care benefits	(16 364 347)	(10 995 364)
Long service awards	(4 900 188)	(4 020 642)
	<b>(21 264 535)</b>	<b>(15 016 006)</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
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### 19. Retirement benefits and long term service awards (continued)

#### PeHCL report

Assumptions used at the reporting date:

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019	2018
R	R

### Post-Employment Medical Aid subsidy liability

#### Key Financial Assumptions

Table 5.1 summarises the key financial assumptions used for the liabilities at the Valuation Date and the expense figures for the ensuing year. The next contribution rate increase is assumed to occur at 1 January 2020.

Table 5.1: Key financial assumptions

Assumption	Value p.a.
Discount rate	9.40%
Health care cost inflation rate	6.86%
Net-of-health-care-cost-inflation discount rate	2.38%
Maximum subsidy inflation rate	4.77%
Net-of-maximum-subsidy-inflation discount rate	4.42%

#### Key Demographic Assumptions

Table 5.2 summarises the key demographic assumptions used.

Key demographic assumptions

Assumption	Value
Average retirement age	62
Continuation of membership at retirement	75%
Proportion with a spouse dependant at retirement	60%
Mortality during employment	SA 85-90
Mortality post-employment	PA(90) -1 with a 1% mortality improvement p.a. from 2010
Withdrawal from service (sample annual rates)	See Table A4.2

Accrued Liability (R millions)

Category	30/06/2018	30/06/2019
<b>In-service members</b>	<b>4.091</b>	<b>8.945</b>
<b>Continuation members</b>	<b>6.905</b>	<b>7.421</b>
<b>All members</b>		
Total liability	10.995	16.365
Value of assets	0.000	0.000
<b>Unfunded liability</b>	<b>10.995</b>	<b>16.365</b>
Expected current portion of liability (payable within 12 months)	0.659	0.632
Expected non-current portion of liability (payable thereafter)	10.336	15.733

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019  
R

2018  
R

In-service members	30/06/2018	30/06/2019
Number of in-service members	16	143
Average age	48.4	41.7
Average past service	18.8	10.3
Average present value of post-employment subsidy p.m.	R 2,204	R 1,391
Average current value of post-employment subsidy p.m.	R 3,309	R 2,220

### Comparison of assumptions

Assumption	30/06/2018	30/06/2019
Discount rate	9.38%	9.40%
Health care cost inflation rate	7.27%	6.86%
Net-of-health-care-cost-inflation discount rate	1.97%	2.38%
Maximum subsidy inflation rate	5.08%	4.77%
Net-of-maximum-subsidy-inflation discount rate	4.09%	4.42%
Average retirement age	63 for males; 58 for females	62
Mortality during employment	SA 85-90	
Mortality post-employment	PA(90) -1	PA(90) -1 with a 1% mortality improvement p.a. from 2010
Withdrawal rates	Updated per Table A4.2	
Proportion with a spouse dependant at retirement	90%	60%
Continuation of membership at retirement	100%	75%

### Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service members	Continuation members	Total	% change
Central assumptions		8.945	7.421	16.365	
Health care inflation rate	+1%	10.041	7.587	17.629	8%
	-1%	7.648	7.164	14.812	-9%
Discount rate	+1%	7.372	6.803	14.175	-13%
	-1%	11.004	8.144	19.148	17%
Post-employment mortality	-1 yr	9.178	7.640	16.818	3%
Average retirement age	-1 yr	9.826	7.421	17.247	5%
Continuation of membership at retirement	-10%	7.806	7.421	15.227	-7%

### Withdrawal rates

This Valuation			Previous Valuation		
Age	Females	Males	Age	Females	Males
20	9%	9%	20	24%	16%
25	8%	8%	25	24%	16%
30	6%	6%	30	18%	12%
35	5%	5%	35	15%	10%
40	5%	5%	40	10%	8%
45	4%	4%	45	6%	6%
50	3%	3%	50	4%	4%
55	0%	0%	55	2%	2%
> 55	0%	0%	> 55	0%	0%

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>19. Retirement benefits and long term service awards (continued)</b>		
<b>20. Service charges</b>		
Sale of electricity	109 142 420	104 622 247
Refuse removal	23 496 337	13 394 209
Other services charges	1 166 168	691 299
	<b>133 804 925</b>	<b>118 707 755</b>
<b>21. Rental of facilities and equipment</b>		
<b>Premises</b>		
Rental of facilities	2 144 956	1 410 249
<b>22. Licences and permits</b>		
Testing ground and licensing	3 173 751	3 216 351
<b>23. Other revenue</b>		
Proceeds from sale of land	1 651 723	-
Other income	4 879 431	3 521 648
	<b>6 531 154</b>	<b>3 521 648</b>
<b>24. Investment revenue</b>		
<b>Interest revenue</b>		
Interest earned - external investments	8 877 410	9 777 018

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>25. Property rates</b>		
<b>Actual</b>		
Residential	25 972 119	18 139 660
Commercial	27 687 543	17 911 222
Public service infrastructure	11 660	50 552
Government	54 934 790	50 580 756
Industrial	13 771 633	8 905 549
Agriculture	11 444 133	3 468 491
Sectional titles	1 805 969	1 055 272
Less: Income forgone	(5 819 342)	(5 509 536)
	129 808 505	94 601 966
Interest received - outstanding receivables	4 453 581	4 042 254
	<b>134 262 086</b>	<b>98 644 220</b>

### Valuations

Residential	3 053 985 643	1 869 526 750
Commercial	1 061 834 000	555 863 100
Public benefit organisation	64 160 000	37 715 000
Municipal Properties	569 882 500	186 681 900
Government	1 471 493 500	1 131 983 100
Industrial	466 318 500	269 399 100
Agricultural	3 784 582 989	1 012 723 400
Public service infrastructure	23 131 000	14 547 900
Multipurpose	-	61 021 500
Place of worship	64 554 500	-
	<b>10 559 942 632</b>	<b>5 139 461 750</b>

Valuations on land and buildings are performed every five years. The last valuation came into effect on 1 July 2017. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations.

Category	Rate Charge
Agriculture	0.003453
Government	0.034533
Residential	0.013813
Commercial	0.027627
Industrial	0.027627
Public Service Infrastructure	0.003453
Municipal	0.013813
Indigent	0.0138813
Pensioners	0.0138813
Public benefit org	0.003453
Place of worship	0.0138813



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>26. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	55 683 000	47 250 000
FMG	1 800 000	1 800 000
Sport and Recreation	74 577	1 497 376
Expanded Public Works Programme	1 311 000	1 000 000
Furniture World	-	1 267 663
Arts and Culture	2 070 000	1 757 887
	<b>60 938 577</b>	<b>54 572 926</b>
<b>Capital grants</b>		
Small Towns Rehabilitation	227 994	11 703 405
Emergency equipment grant	4 430 610	-
Intergrated National Electrification Programme	14 711 384	9 749 128
Municipal Infrastructure Grant	32 090 834	22 591 000
Housing account	2 318 422	-
Massification grant	4 958 646	-
Cultural village	4 944 459	-
	<b>63 682 349</b>	<b>44 043 533</b>
	<b>124 620 926</b>	<b>98 616 459</b>

### Equitable Share

In terms of the Constitution this grant is used to subsidise the provision of basic services to indigent community members.

Unconditional grants received	55 683 000	47 250 000
Unconditional grants received-transferred to revenue	(55 683 000)	(47 250 000)
	-	-

### Financial Management Grant - FMG

Current-year receipts	1 800 000	1 800 000
Conditions met - transferred to revenue	(1 800 000)	(1 800 000)
	-	-

This grant is used for implementation of MFMA, finance reforms and payment of intern's salaries.

### Municipal Infrastructure Grant - MIG

Balance unspent at beginning of year	(1 525 701)	-
Current-year receipts	22 549 000	22 591 000
Conditions met - transferred to revenue	(32 090 834)	(24 116 701)
<b>Transferred to debtor</b>	<b>(11 067 535)</b>	<b>(1 525 701)</b>

This grant is used for for road infrastructure as part of upgrading of infrastructure projects.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>26. Government grants and subsidies (continued)</b>		
<b>Small Town Rehabilitation</b>		
Balance unspent at beginning of year	323 442	12 026 847
Conditions met - transferred to revenue	(227 934)	(11 703 405)
	<b>95 508</b>	<b>323 442</b>

Conditions still to be met - remain liabilities (see note 16).

This grant is used for development in town like upgrading sidewalks, parkings and storm water drainage.

### Peoples Housing Project 12 & 13

Balance unspent at beginning of year	28 143	27 984
Current-year receipts	151	159
	<b>28 294</b>	<b>28 143</b>

Conditions still to be met - remain liabilities (see note 16).

This grant is used for upgrading informal settlement areas within the Municipality.

### Horseshoe Township

Balance unspent at beginning of year	1 476 419	1 421 935
Current-year receipts	51 829	54 484
	<b>1 528 248</b>	<b>1 476 419</b>

Conditions still to be met - remain liabilities (see note 16).

This grant is used for upgrading informal settlement areas within the Municipality.

### Massification

Current-year receipts	5 000 000	-
Conditions met - transferred to revenue	(4 958 646)	-
	<b>41 354</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 16).

Provide explanations of conditions still to be met and other relevant information.

### Arts and culture

Balance unspent at beginning of year	113	-
Current-year receipts	2 070 000	1 758 000
Conditions met - transferred to revenue	(2 070 000)	(1 757 887)
Other movements	(113)	-
	<b>-</b>	<b>113</b>

Conditions still to be met - remain liabilities (see note 16).

This grant is used for the provision of staffing costs for Library services within the Municipality.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>26. Government grants and subsidies (continued)</b>		
<b>Sports and Recreation</b>		
Balance unspent at beginning of year	-	123 351
Current-year receipts	50 000	1 374 025
Conditions met - transferred to revenue	(29 194)	(1 497 376)
	<b>20 806</b>	<b>-</b>

This grant is used for upgrading and maintenance of Sport field.

### Community Participation Grant

Balance unspent at beginning of year	85 672	85 672
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This grant is for IDP compilation and processes.

### EPWP

Current-year receipts	1 311 000	1 000 000
Conditions met - transferred to revenue	(1 311 000)	(1 000 000)
	-	-

EPWP Grant is used to expand job creation efforts in specific focus areas where labour intensive delivery methods can be measured

### Shayamoya eco complex

Balance unspent at beginning of year	31 743	31 743
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Grant is used to boost local economic tourism and the environment

### Light industrial park

Balance unspent at beginning of year	177 382	177 382
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Grant is used to build infrastructure to boost small to medium businesses

### Furniture World

Balance unspent at beginning of year	226 413	98 395
Current-year receipts	-	1 395 680
Conditions met - transferred to revenue	-	(1 267 662)
	<b>226 413</b>	<b>226 413</b>

The Grant is used to provided on the job training for the youth , capacitating them for job readiness

### SETA

Balance unspent at beginning of year	(1 434 496)	(1 741 239)
Current-year receipts	-	1 275 919
Conditions met - transferred to revenue	-	(969 176)
<b>Transferred to debtor</b>	<b>(1 434 496)</b>	<b>(1 434 496)</b>

The Grant is used to provided on the job training for the youth , capacitating them for job readiness

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>26. Government grants and subsidies (continued)</b>		
<b>Integrated National Electrification Programme</b>		
Balance unspent at beginning of year	255 348	4 476
Current-year receipts	17 914 000	10 000 000
Conditions met - transferred to revenue	(14 711 384)	(9 749 128)
	<b>3 457 964</b>	<b>255 348</b>

Conditions still to be met - remain liabilities (see note 16).

This grant is used for the upgrade of bulk electricity infrastructure

### Cultural Village (Cogta)

Balance unspent at beginning of year	5 000 000	-
Current-year receipts	-	5 000 000
Conditions met - transferred to revenue	(4 944 459)	-
	<b>55 541</b>	<b>5 000 000</b>

Conditions still to be met - remain liabilities (see note 16).

This grant is used to boost the local tourism sector

### Emergency Equipment Grant

Balance unspent at beginning of year	4 430 610	-
Current-year receipts	-	6 000 000
Conditions met - transferred to revenue	(4 430 610)	(1 569 390)
	<b>-</b>	<b>4 430 610</b>

Conditions still to be met - remain liabilities (see note 16).

This grant is used to equip the municipalities Fire fighting capabilities and response to disasters

## 27. Fines, Penalties and Forfeits

Fines	1 378 782	1 868 627
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## 28. Revenue

Service charges	133 804 925	118 707 755
Rental of facilities and equipment	2 144 956	1 410 249
Licences and permits	3 173 751	3 216 351
Proceeds on sale of assets	1 651 723	-
Other income	4 879 431	3 521 648
Interest earned -external investment	8 877 410	9 777 018
Property rates	129 808 505	94 601 966
Interest earned - outstanding receivables	4 453 581	4 042 254
Debtors impairment recovery	-	692 302
Government grants & subsidies	124 620 926	98 616 459
Fines and Penalties	1 378 782	1 868 627
Fines impairment recovery	353 488	1 636 104
Recovery of provision	1 802 218	2 299 741
	<b>416 949 696</b>	<b>340 390 474</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>28. Revenue (continued)</b>		
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	133 804 925	118 707 755
Rental of facilities and equipment	2 144 956	1 410 249
Licences and permits	3 173 751	3 216 351
Greenest Municipality Award	1 651 723	-
Other income	4 879 431	3 521 648
Interest earned - external investment	8 877 410	9 777 018
	<b>154 532 196</b>	<b>136 633 021</b>

**The amount included in revenue arising from non-exchange transactions is as follows:**

<b>Taxation revenue</b>		
Property rates	129 808 505	94 601 966
Interest earned - outstanding receivables	4 453 581	4 042 254
Debtors impairment recovery	-	692 302
<b>Transfer revenue</b>		
Government grants & subsidies	124 620 926	98 616 459
Fines and Penalties	1 378 782	1 868 627
Fines impairment recovery	353 488	1 636 104
Recovery of provision	1 802 218	2 299 741
	<b>262 417 500</b>	<b>203 757 453</b>

## 29. Employee related costs

Basic	72 002 463	61 418 539
Bonus	5 005 450	4 604 610
Medical aid - company contributions	4 784 686	4 422 944
UIF	608 471	554 741
SDL	1 020 488	878 766
Leave pay provision	3 060 110	2 010 447
Pension fund	12 834 259	11 229 151
Travel, motor car, accommodation, subsistence and other allowances	5 580 842	4 075 343
Overtime payments	6 465 009	5 281 210
Housing benefits and allowances	1 559 087	1 739 534
Performance bonus	1 956 143	2 514 652
Interest on post employment benefits	1 315 439	1 192 019
Current Service Cost	550 234	546 298
	<b>116 742 681</b>	<b>100 468 254</b>

## Remuneration of Municipal Manager

Annual Remuneration	1 004 774	828 000
Car Allowance	261 554	261 554
Contributions to UIF, Medical and Pension Funds	-	24 000
Cellphone , rural and other allowances	136 033	106 748
Bonus	-	29 833
Back pay	22 541	-
	<b>1 424 902</b>	<b>1 250 135</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>29. Employee related costs (continued)</b>		
<b>Remuneration of Chief Financial Officer</b>		
Annual Remuneration	642 772	613 988
Car Allowance	203 409	219 242
Performance Bonuses	-	14 400
Contributions to UIF, Medical and Pension Funds	-	41 764
Cellphone , rural and other allowances	49 394	37 511
Bonus	-	11 735
Back pay	11 391	-
	<b>906 966</b>	<b>938 640</b>
<b>Remuneration of Community Services Executive Manager</b>		
Annual Remuneration	557 227	-
Car Allowance	141 031	-
Cellphone , rural and other allowances	103 728	-
Leave and back pay	6 669	-
	<b>808 655</b>	-
<b>Remuneration of Infrastructure Planning and Development Executive Manager</b>		
Annual Remuneration	499 363	150 399
Car Allowance	114 212	37 600
Performance Bonuses	-	3 327
Cellphone , rural and other allowances	138 147	7 520
Back pay	4 271	-
	<b>755 993</b>	<b>198 846</b>
<b>Remuneration of Corporate Services Executive Manager</b>		
Annual Remuneration	750 180	153 109
Car Allowance	36 000	8 318
Cell Phone , rural and other allowance	109 394	24 711
Bonus	-	12 708
Back pay	11 391	-
	<b>906 965</b>	<b>198 846</b>
<b>Remuneration of Economic Development &amp; Spatial Planning Executive Manager</b>		
Annual Remuneration	432 763	-
Car Allowance	114 212	-
Provident fund/Retirement	45 000	-
Contributions to UIF, Medical and Pension Funds	52 000	-
Bonus/ 13th cheque	60 000	-
Back pay	3 458	-
Cell Phone , rural and other allowance	47 104	-
	<b>754 537</b>	-

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>30. Remuneration of councillors</b>		
Mayor	868 549	836 713
Former Mayor	190 684	-
Deputy Mayor	512 316	677 531
Speaker	703 000	677 531
Executive Committee Member	177 821	203 291
Councillors	3 002 793	2 851 956
Councillors' allowances	1 220 240	1 235 443
Councillors' pension and medical contributions	526 096	487 328
	<b>7 201 499</b>	<b>6 969 793</b>

### In-kind benefits

The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties. The Mayor has three full-time bodyguards . The Deputy Mayor and speaker have two full-time bodyguards.

### 31. Depreciation and amortisation

Property, plant and equipment	34 369 255	34 403 302
Intangible assets	346 518	216 422
	<b>34 715 773</b>	<b>34 619 724</b>

### 32. Impairment of assets

#### Impairments

Property, plant and equipment	-	320 463
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### 33. Finance costs

Finance leases	-	10 980
Interest on finance lease arrangements	-	11 842
	-	<b>22 822</b>

### 34. Debt impairment

Debt written off	2 299 738	5 671 925
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### 35. Bulk purchases

Electricity - Eskom	86 852 689	84 005 005
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# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>36. Contracted services</b>		
Burial services	148 685	123 900
Financial Management Systems	2 957 279	4 014 354
Landfill site maintenance	1 974 908	2 181 766
Legal Advice and Litigation	4 254 459	2 176 488
Maintenance of Unspecified Assets	6 808 359	3 172 696
Professional Services	4 332 094	4 127 607
Research and Advisory	267 283	401 062
Security services	7 249 941	6 189 694
Town planning services	478 018	404 880
Valuation services	919 400	2 019 120
	<b>29 390 426</b>	<b>24 811 567</b>
<b>37. General expenses</b>		
Advertising	2 030 730	1 863 939
Auditors remuneration	2 388 667	2 272 711
Administration	-	323 939
Bank charges	758 852	626 444
Bursaries	103 999	87 120
Consulting and professional fees	-	351 000
Collection costs	2 086 774	1 954 930
Conferences and seminars	1 600 962	1 615 630
Departmental electricity consumption	367 900	341 126
Fuel and oil	2 954 931	2 736 433
GIS	110 163	95 953
Insurance	1 544 428	186 856
ICT services	2 192 950	2 375 394
Licence fees	2 154 787	513 541
Materials repairs and maintenance	9 084 828	8 604 114
Other expenses	8 664 824	8 951 004
Postage and courier	781 132	609 025
Pound management fees	280 000	336 000
Printing and stationery	120 947	101 602
Provision for impairment expense	8 956 794	-
Rental of surveillance cameras	125 040	357 957
Rentals buildings and vehicles	394 003	695 439
Stocks and materials	1 842 169	850 551
Subscription & memberships	1 992 777	1 755 512
Staff wellness	280 786	286 620
Travel and accommodation	2 896 893	2 797 937
Telephone and fax	1 252 055	1 760 971
Training	445 515	271 872
Uniforms	2 296 666	1 725 042
	<b>57 709 572</b>	<b>44 448 662</b>



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>38. Cash generated from operations</b>		
Surplus	79 510 736	34 646 382
<b>Adjustments for:</b>		
Depreciation and amortisation	34 715 773	34 619 724
Loss sale of assets and liabilities	23 012	5 532 283
Proceeds on sale of land	(1 651 723)	-
Fair value adjustments	(3 124 113)	(1 200 241)
Provision for consumer impairment	8 956 794	-
Impairment loss	-	320 463
Debts written off	2 299 738	5 671 925
Movements in retirement benefit assets and liabilities	6 249 528	1 295 565
Movements in provisions	(558 509)	(260 930)
Other non-cash items	(103 452)	73 835
Loss on actuarial	(5 627 683)	-
Current service costs	(550 234)	(776 245)
Reversal debtors of impairment	-	(692 302)
Interest on post employment benefits	1 315 439	1 192 019
Recognition deferred revenue	(3 858 836)	-
Performance bonus addition non cash	1 956 143	2 514 652
Leave accrual adjustment	729 731	2 055 057
Fines recovery	(353 488)	(1 636 104)
Provision recovery	(1 802 218)	(2 299 741)
<b>Interest on post employment benefits</b>		
Inventory	(253 764)	(676 173)
Vat receivable	-	(1 123 381)
Trade and other receivables	(5 707 557)	(3 678 639)
Other receivables from non-exchange transactions	(18 719 345)	2 223 400
Prepayments	832 709	(937 248)
Payables from exchange transactions	7 096 071	(5 763 014)
Unspent conditional grants and receipts	(6 157 331)	(1 962 613)
Consumer deposits	245 988	25 035
VAT payable	2 003 972	(661 217)
Deferred income	(4 097 786)	(3 053 871)
	<b>93 369 595</b>	<b>65 448 621</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>39. Commitments</b>		
<b>Already contracted for but not provided for</b>		
• Infrastructure	96 985 041	98 740 092
• Community	24 768 519	24 732 895
	<b>121 753 560</b>	<b>123 472 987</b>
<b>Total capital commitments</b>		
Already contracted for but not provided for	121 753 560	123 472 987
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	121 753 560	123 472 987
This committed expenditure relates to plant and equipment and infrastructure projects and will be financed by available bank facilities, accumulated surpluses, existing cash resources, funds internally generated, etc.		
<b>Funding</b>		
Expenditure will be financed from.		
Government grants	91 972 824	110 530 283
Own revenue	29 780 736	12 942 704
	<b>121 753 560</b>	<b>123 472 987</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
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### 40. Contingencies

#### Contingent liabilities

##### Sinkshow Construction vs Greater Kokstad Municipality

Demand for the return of construction material and currently there is a rescission of Default Judgment granted and the amount claimed is R 100 000.

##### Greater Kokstad Municipality vs Mbulelo Sibiyi

Motor vehicle accident concerning a claim of an amount of R 158 624

##### Greater Kokstad Municipality vs Mkhize and others

Municipality is seeking to recoup costs exceeding R 100 000

#### Contingent assets

##### Greater Kokstad Municipality vs Hoosen Kharvia

Motor vehicle accident with a claim amount of R 45 000

##### Greater Kokstad Municipality vs Nathoo Mbunyane Engineers, Turf Incorporated and Dura Putt Indoor & Outdoor Turf.

The Municipality is claiming an amount of R1 748 640 for the upgrading of the Bhongweni Stadium from these stakeholders. Turf failed to deliver as a result their contract was cancelled after being placed in MORA (delayed) by Nathoo Mbuyana Engineering.

##### Greater Kokstad Municipality vs Torgos.

The attorneys have been given a status report on the developments in this case and they have briefed Advocate Gani. The prospects of success in this matter were discussed and it was decided that the Municipality will enter into settlement negotiations with the other side to ensure that the Municipality obtains some value. The estimated envisaged cost is R100 000.

##### Greater Kokstad Municipality vs FEZ Building Construction

This is an action claiming R 4 342 991 for breach of a construction contract. Summons has been issued and served, and the matter is defended.

##### Greater Kokstad Municipality vs Forensic Investigation (Gqola and Nxumalo)

Summons have been issued against former Municipal Manager and former Chief Financial Officer to recover loss of R219 777 incurred through them failing to discharge their fiduciary duties. Due to the time delay, we may also face issues of lack of evidence by the time this matter reaches the trial stage.

##### Greater Kokstad Municipality vs Ndevu

Summons issued against Ms Ndevu to recover funds in the amount of R128 222 allegedly misappropriated by her during her employment with the Municipality. The Municipality as a result has decided with the Pension Fund Adjudicator to withhold Ms Ndevu's pension benefit amounting to R74 145 to ensure that at least a portion of the Municipality's claim will be satisfied.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
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### 41. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by it. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

At 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	37 641 013	-	-	-

#### Maximum credit risk exposure

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

#### Market risk

#### Interest rate risk

As the municipality has interest-bearing assets such as investments, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

### 42. Irregular expenditure

Opening balance	73 284 617	18 952 280
Irregular expenditure current year	9 255 532	54 332 337
<b>Sub total</b>	<b>82 540 149</b>	<b>73 284 617</b>
Less: written off by council	(15 111 221)	-
<b>Closing balance</b>	<b>67 428 928</b>	<b>73 284 617</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>42. Irregular expenditure (continued)</b>		
<b>Expenditure identified in the current year include those listed below:</b>		
Contracts concluded prior years not compliant with SCM Regulations 29 not complied	1 863 582	388 298
Contracts concluded in prior years not compliant with SCM Regulations 32	-	12 573 359
Complied with when awarding of Bid	-	565 166
Contracts concluded in prior years not compliant bidder owing Municipal Rates formore than 3 months	-	154 344
Bid not awarded to reccomended bid	-	2 699 423
SCM Regulations 36 not complied with when awarding of Bid	944 989	1 949 260
Non- compliant with local content	-	9 085 857
Non-tax compliant bidders	-	240 654
Non compliance with section of 12(3)	-	672 880
Variation exceeded	-	54 225
Award date and scorning	-	160 000
Bid not advertised for the prescribed number of days	3 373 459	-
Non -compliance with PPPFA	-	84 750
Contravention of section 33	3 073 502	25 704 121
	<b>9 255 532</b>	<b>54 332 337</b>

### 43. Fruitless and wasteful expenditure

Opening balance	584 621	568 374
Add: Fruitless and wasteful expenditure - current year	5 908	16 247
<b>Opening balance as restated</b>	<b>590 529</b>	<b>584 621</b>
<b>Closing balance</b>	<b>590 529</b>	<b>584 621</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>43. Fruitless and wasteful expenditure (continued)</b>		
<b>Incidents/cases identified in the current year include those listed below:</b>		
Interest on late payment	5 908	-
SARS interest	-	1 616
Sisonke District Municipality penalties	-	95
Telkom	-	14 536
	<b>5 908</b>	<b>16 247</b>
<b>44. Deviation from supply chain management regulations</b>		
Original dealer	1 372 368	32 661
Emergency	5 173 791	19 215
Other	1 088 358	7 094 203
<b>Total Section 36 deviations for the financial year</b>	<b>7 634 517</b>	<b>7 146 079</b>
<b>45. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	1 292 630	1 196 816
Amount paid - current year	(1 292 630)	(1 196 816)
	-	-
<b>Audit fees</b>		
Current year subscription / fee	3 378 306	1 765 708
Amount paid - current year	(3 378 306)	(1 765 708)
	-	-

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
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### 45. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### PAYE, UIF & SDL

Current year subscription / fee	18 308 182	14 889 054
Amount paid - current year	(18 308 182)	(14 889 054)
	-	-

#### Pension and Medical Aid Deductions

Current year subscription / fee	27 386 351	24 183 011
Amount paid - current year	(27 386 351)	(24 183 011)
	-	-

#### Councillors' arrear consumer accounts

No Councillors had arrear accounts outstanding at 30 June 2019.

No Councillors had arrear accounts outstanding at 30 June 2018

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
	R	R

### 45. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Award to close family member

None has been awarded to a close family member in the current year.

### 46. Electricity losses

2019

The municipality has identified electricity losses in units 7 620 813.85 with an estimated value of R 7 750 367.69

2018

The municipality has identified electricity losses in units 8,832,674.08 with an estimated value of R 8,497,032.46.

### 47. In Kind assistance

The municipality recieved in kind assistance from Provincial Treasury in:

- Contract management
- SCM compliance assessment
- SCM bid committee training

### 48. Events after the reporting date

There were no material non-adjusting events that came to the attention of management after the reporting date.



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
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### 49. Key sources of estimation uncertainty and judgements

The following areas involve a significant degree of estimation uncertainty:

Impairment testing  
Present value of defined benefit obligation  
Fair value estimation  
Provision for doubtful debts  
Useful life assessment of PPE and intangible  
Allowance for doubtful debts

### 50. Budget Variance Explanation

- 1) Service charges: The decrease is due to higher tariffs and the block tariff consumers utilized less than expected units
- 2) Rental facilities: The increase was due to the municipality having established a property management section, and additional rental facilities provided
- 3) Licences and permits: The decrease was due to the migration of customers to other licensing departments to obtain their licenses
- 4) Other income: The increase was due to the recognition of deferred income relating to electricity units and sale of land
- 5) Fines, Penalties and Forfeits: The decrease was due to Lack of personnel to enforce traffic bylaws
- 6) Fines impairment bad debts recovery: The increase was due to the municipality did not anticipate a recovery on fines
- 7) Provision for performance bonus recovery: The increase was due to a recovery on the provision for performance bonus, which was based on a 14% of annual package but subject annual assessments of managers. The performance criteria was not met.
- 8) Depreciation and asset impairment: The decrease was due to a number of infrastructure assets having not been capitalized.
- 9) Debt Impairment: The decrease is due to municipalities' debt collection avenues the debt impairment is the last resort after all processes have been exhausted.
- 10) Material & Bulk purchases: The decrease is due to NERSA approving the final tariffs after the municipal budget has been approved
- 11) Contracted Services: The decrease is due to the municipalities implementation of cost containment measures

### 51. Financial instruments disclosure

#### Categories of financial instruments

#### 2019

#### Financial assets

	At cost	Total
Inventories	1 754 973	1 754 973
Receivables from non-exchange transactions	42 616 464	42 616 464
Prepayments	539 875	539 875
Receivables from exchange transactions	29 763 005	29 763 005
Cash and cash equivalents	116 761 145	116 761 145
	<b>191 435 462</b>	<b>191 435 462</b>

#### Financial liabilities

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>51. Financial instruments disclosure (continued)</b>		
	At cost	Total
Consumer deposits	4 444 984	4 444 984
Unspent conditional grants	5 877 841	5 877 841
Provisions	1 956 143	1 956 143
Trade and other payables from exchange transactions	37 641 013	37 641 013
Vat payables	880 591	880 591
Deffered Income	3 536 291	3 536 291
Employee benefit obligation	21 265 534	21 265 534
	<b>75 602 397</b>	<b>75 602 397</b>

### 2018

#### Financial assets

	At cost	Total
Trade and other receivables from exchange transactions	24 055 447	24 055 447
Other receivables from non-exchange transactions	23 897 119	23 897 119
Cash and cash equivalents	114 262 305	114 262 305
Prepayments	1 372 584	1 372 584
Inventories	1 501 209	1 501 209
Vat recievable	1 123 381	1 123 381
	<b>166 212 045</b>	<b>166 212 045</b>

#### Financial liabilities

	At cost	Total
Trade and other payables from exchange transactions	30 544 942	30 544 942
Consumer deposits	4 198 996	4 198 996
Unspent conditional grants and receipts	12 035 172	12 035 172
Provisions	2 514 652	2 514 652
Deffered income	5 279 478	5 279 478
	<b>54 573 240</b>	<b>54 573 240</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
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### 52. Municipal Standard Chart of Accounts (mSCOA) Reclassification

#### Reclassifications

#### Reclassification

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption and implementation of the Municipal Standard Chart of Accounts (mSCOA) which regulates standard classification of municipal budget and financial information.

The aggregate effect of the implementation of the Municipal Standard Chart of Accounts (mSCOA) on the Annual financial statements for the year ended 30 June 2017 is as follows:

#### Contracted services

Repairs and maintenance	-	10 489 387
General expenses-other expenses	-	3 389 151
Legal costs	-	1 645 248
Auditors remuneration	-	1 539 534
Valuation roll maintenance costs	-	105 263
General expenses-Security Services	-	3 463 376
Repairs and maintainance-land fill maintainance	-	2 916 080
	-	<b>23 548 039</b>

Other expenses	-	(125 941)
Staff wellness	-	125 941
	-	-

### 53. Related parties

Accounting Officer

Refer to accounting officer's report note

#### Key management information

Class	Description	Number
Municipal Manager	Accounting officer	039 797 6601
Chief Financial officer	Senior management	039 797 6613
Community Services Executive Manager	Senior management	039 797 6658
Infrastructure Planning and Development Executive Manager	Senior management	039 797 6665
Corporate Services Executive Manager	Senior management	039 797 6645
EDSP Executive Manager	Senior management	039 797 6663